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CITY CLERK

ENV SERVICES/SEWER RATES

So you may have a better understanding concerning your high sewer rates I have provided some oversight with statistics provided by ENV services and other agencies that provide information on the financial status of Sewer Operations. The ENV Dept is managed by Mr. Steinberger and City Council monitors their operations. Keep in mind that rates are set by the City Council based on information provided by Sewer Services. Mr. Chang of City Council is the Chair of the Public Works departments. Listed below are items of interest and concern regarding Sewer Operations.

1. The current 2011 revenue and expense statement was posted which demonstrated a net income of \$347 million dollars. Income was gained through rate charges (base rate and usage). Operating expenses posted were \$163 million dollars and there also were \$51 million in debt obligations for a total of \$214 of combined expenses. Comparing net income against expenses there was a net gain of \$133 million dollars. This shows that there is a net gain of 38% over expenses. The past 3 years demonstrated that ENV enjoyed gains of over \$300 million dollars all of which were transferred to their net asset account to justify their gains. Net assets now total 1 billion 38 million dollars. Interestingly net assets have remained constant and proportionate to each years gain, it has never diminished nor expenses charged against it yet ENV addressed Council to consider increases in rates of 5 percent or greater for the next 10 to 15 years. WHY?

2. Fitch rating services is an agency that looks into the financial status of various government departments requesting revenue bond issues. They stated looking at ENV, Sewer services that since 2005 through 2011 rate increases have reached 175 percent and ENV/SEWER services has asked for additional increases. For your interest revenue bond issues are an expense to rate payers. They are responsible for interest payed on bonds and cost of buy back at the end of a bond life. A reason your rates continually increase. For your interest debt service has increased from \$25 million in 2006 and is projected to increase to \$200 million or more.

3. Who are the rate payers? Sewer service has catagorized rate payers into 3 groups. Single-resident, multi-resident, and non-resident. Single resident rate payers are the home owners, multi-resident represent condo's and non-residents are the hotels (visitor industry). 136,400 are single resident rate payers, 6000 are multi resident and 7500 rate payers are the hotels. Of the 136,400 single resident and 6000 multi resident they equal 143,000 rate payers. The 7500 non-resident rate payers equal 1,039,000 users which is the equivalent of 297,000 single rate payers. Yes, non-residents equal twice the single residents yet they are assessed at a rate 19 times less than single rate payers. Also non-residents rate payers pay 10 percent less in their base rate charge. Single resident pay \$71 and non-residents pay \$64.

4. There is a fixed rate assessment that all users are required to pay. Single residents pay \$852 a year or 122 million total for all resident users. Non-resident users pay \$768 a year for a total of \$5.7 million a year. Combined base rate payers pay approximately \$130 million a year. It is interesting that Base rate revenue equals near the net gain in revenues over expenses. There are twice as many non-resident users yet their they pay 5.7 million verses 122 million of resident users. Council and ENV believe this to be fair assessment.

5. There are approximately 105 million of gallons infused into the sewer system daily. Non-resident users equal twice that of single residents therefore it is fair to assume they input twice as much sewage yet they 17/18 times less than the single resident user and even receive a reduced base rate.

6. ENV implies that by using less your sewer bill will be less. Because the base rate is a fixed rate no one that pays for services will realize a reduction in fees other than basic use. An example of why the base rate is unfair is; a customer that was billed \$225 payed \$5.00 for water usage and was not assessed a usage fee yet they had to pay \$220 in base rate fees yet was not charged a usage fee. The base rate charge must be eliminated and to be offset by an increase in usage fees. Customers who use less will see a decrease in their bill.

7. Finally over the past 6 years rates have increased a whopping 175 percent and projected to increase 5 percent annually for the next 10 to 15 years. BWS has seen Council's lack of concern and has suggested

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they will follow increases in water rates near equal to sewer rates. What does it mean? Single residents that pay a bi-monthly bill of \$250 will see an increase upwards to near \$400. Members of council know this as they have expressed concern but they "DO NOTHING". ENV/Sewer services is aware there is trouble on the horizon and if not addressed immediately will cost rate payers beyond ability to pay. Council and ENV know this problem. Out of nine council members only one has demonstrated concern. That member has impeachment proceedings against him and members of council have actually tried to gag him which goes against our forefathers which fought for representation if taxed. The lack of concern will continue unless the community finally realizes the failure of council and Sewer services.

8. All of the statistics were provided by ENV and agencies that are concerned with financial ability.

City and County of Honolulu
Sewer Fund
Management's Discussion and Analysis
June 30, 2011 and 2010

Net assets (the difference between assets and liabilities) may serve, over time, as a useful indicator of a government's financial position. In the case of the Wastewater Enterprise, assets exceeded liabilities by \$1,038.5 million and \$908.8 million at the end of fiscal year 2011 and 2010, respectively. Addition of capital assets resulted in a 14.3% increase in net assets from June 30, 2010 to June 30, 2011. The largest portion of the Wastewater Enterprise's net assets represented its investment in capital assets (e.g., land, buildings, transmission and distribution system, etc.). The Wastewater Enterprise uses these capital assets to provide wastewater services on the Island of Oahu and consequently, capital assets are not available to liquidate liabilities or other spending.

The following are the highlights of the condensed statements of revenues, expenses and change in net assets (in thousands of dollars):

Statements of Revenues, Expenses and Change in Net Assets

	2011	2010	2009
Operating revenues	\$ 347,038	\$ 308,407	\$ 251,953
Operating expenses	<u>(162,579)</u>	<u>(153,680)</u>	<u>(130,346)</u>
Operating income	184,459	154,727	121,607
Nonoperating revenues (expenses)			
Interest income	1,082	957	7,080
Interest expense	(50,832)	(43,555)	(45,269)
Other	<u>3,786</u>	<u>(409)</u>	<u>(3,329)</u>
Income before transfers and capital contributions	138,495	111,720	80,089
Transfers out	(9,552)	(9,485)	(12,931)
Capital contributions	<u>823</u>	<u>5,962</u>	<u>5,677</u>
Change in net assets	129,766	108,197	72,835
Net assets			
Beginning of year	<u>908,772</u>	<u>800,575</u>	<u>727,740</u>
End of year	<u>\$ 1,038,538</u>	<u>\$ 908,772</u>	<u>\$ 800,575</u>

The change in net assets was primarily due to:

- Operating revenues, comprised mainly of sewer service charges, increased 12.5% to \$347.0 million for fiscal year 2011 compared to the prior fiscal year and increased 22.4% to \$308.4 million for fiscal year 2010 compared to fiscal year 2009. Sewer service charge rates were raised 15% at July 1, 2010.
- Operating expenses increased \$8.9 million or 5.8% to \$162.6 million for fiscal year 2011 compared to the prior fiscal year and increased \$23.3 million or 17.9% to \$153.7 million for fiscal year 2010 compared to fiscal year 2009. The primary increase in 2011 was in depreciation, contractual services, and utilities. The primary increase in 2010 was in fringe benefits and administration and general.